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FISCAL IMPACT STATEMENT

LS 6024 **NOTE PREPARED:** Jan 30, 2007
BILL NUMBER: HB 1027 **BILL AMENDED:** Jan 29, 2007

SUBJECT: Economic Matters.

FIRST AUTHOR: Rep. Day **BILL STATUS:** As Passed House
FIRST SPONSOR: Sen. Bray

FUNDS AFFECTED: X **GENERAL** **IMPACT:** State & Local
X **DEDICATED**
X **FEDERAL**

Summary of Legislation: (Amended) *Minimum Wage:* This bill increases Indiana's minimum hourly wage to $6 on September 1, 2007, $6.75 on March 1, 2008, and $7.50 on September 1, 2008. The bill removes the exemption from Indiana's minimum wage law for employers that are subject to the minimum wage provisions of the federal Fair Labor Standards Act.

Wage Assignment: The bill increases from $800 to $6,000 the amount of the maximum wage claim for which the Commissioner of the Department of Labor may take an assignment.

Inheritance Tax: The bill increases the Inheritance Tax exemption for Class A transferees from $100,000 to $200,000.

Effective Date: July 1, 2007.

Summary of Net State Impact: *Inheritance Tax:* Under the bill, Indiana Inheritance Tax revenues will decrease beginning in FY 2009. The bill is expected to increase state General Fund expenditures on county Inheritance Tax replacement. The net state impact of the bill is summarized in the table below.

	FY 2009	FY 2010 and after
Inheritance Tax	($15.4 M - $18.6 M)	($15.4 M - $18.6 M)
Add'l. County Replacement Expenditures	0	(0.09 M - 0.12 M)
Net Increase (Decrease)	($15.4 M - $18.6 M)	($15.5 M - $18.7 M)

Explanation of State Expenditures: *Minimum Wage:* The state has ten employees who are paid less than $7.50 per hour. The cost to increase the minimum wage from the current rate of $5.15 to $6.00 per hour on September 1, 2007, $6.75 per hour on March 1, 2008, and $7.50 per hour on September 1, 2008, would be approximately $16,400 for FY 2008 and $39,100 for FY 2009. The increase in the minimum salary would also affect wage-related benefits such as social security and retirement benefits.

(Revised) *Wage Assignment:* The impact on the state and local governments would be as an employer and should be a minor impact, if any. Increasing to $6,000 from $800 the amount of the maximum wage claim for which the Commissioner of the Department of Labor may take an assignment could increase the administrative costs of the Department of Labor. The increase in costs would probably be minor.

Inheritance Tax: The bill could potentially increase expenditures from the state General Fund for county Inheritance Tax replacement by approximately $90,000 to $120,000 annually beginning in FY 2010. (Note: Replacement payments are made in the fiscal year following the fiscal year in which counties experience revenue shortages.) Necessary replacement funding may vary depending on whether, and by how much, each county's base revenue differs from the amount guaranteed under current statute. (See *Explanation of Local Revenues*, below, for an explanation of county revenue loss and replacement procedures.)

Explanation of State Revenues: *Inheritance Tax:* The bill is estimated to reduce Inheritance Tax revenue by approximately $15.4 M to $18.6 M annually beginning in FY 2009.

Background: The bill increases the exemption for Class A beneficiaries from $100,000 to $200,000. Under current statute, a Class A beneficiary is a lineal descendant, including a step child or an adopted child. The increase in the exemption is effective for transfers of decedents who die on or after July 1, 2007. Since the Inheritance Tax must be paid within 12 months after the decedent's death (within 9 months to receive the 5 percent early payment discount), the initial fiscal impact of increasing the exemption would lag the change by about one year. Thus, the bulk of the initial fiscal impact would arise in FY 2009.

The estimated fiscal impact of the exemption increase is based on the Office of Fiscal and Management Analysis (OFMA) Inheritance Tax database and the Revenue Technical Committee's FY 2009 forecast (published December 14, 2006). The forecast estimates FY 2009 Inheritance Tax at $140.0 M. The estimated revenue loss assumes that annual Inheritance Tax revenues would persist at the $140.0 M level after FY 2009, absent the exemption increase. The Inheritance Tax database is comprised of about 336,000 records of transferees receiving assets from a decedent who died between July 1, 1997, and December 31, 2005. Annual sample totals suggest that Class A beneficiaries account for about 44.7% of annual Inheritance Tax revenue (about $62.6 M of the forecast amount). About 99.1% of total Inheritance Tax collections are from Indiana residents. Since counties retain 8% of resident Inheritance Tax, annual county collections from Class A beneficiaries are estimated to total about $5.4 M. Simulations with the sample returns suggest that the exemption increase could reduce revenue from Class A beneficiaries by about 24.6% to 29.7%.

A total of 92% of resident Inheritance Tax revenue and 100% of nonresident Inheritance Tax revenue is distributed to the state General Fund.

Explanation of Local Expenditures: *Minimum Wage*: The local impact of increasing the minimum wage is unknown, but probably minor. The percentage increase from the current rate of $5.15 would be 16.5% on September 1, 2007, 31.1% on March 1, 2008, and 45.6% on September 1, 2008. The increase in the minimum salary would also affect the local unit's cost of wage-related benefits such as social security and retirement benefits.

Explanation of Local Revenues: *Inheritance Tax:* The increase in the Class A exemption could potentially result in the net impact to counties summarized in the table below.

	State FY 2009	State FY 2010 and after
Inheritance Tax	($1.3 M - $1.6 M)	($1.3 M - $1.6 M)
Add'l. County Replacement Payments	0	(0.09 M - 0.12 M)
Net Increase (Decrease)	($1.3 M - $1.6 M)	($1.2 M - $1.5 M)

Background: Counties retain 8% of the Inheritance Tax collected on transfers made by Indiana residents, and are guaranteed a statutorily determined amount from the Inheritance Tax under the replacement provision established by P.L. 254-1997. This legislation increased the Class A exemption to $100,000 effective July 1, 1997, and required the state to annually transfer money from the state General Fund to counties to replace county Inheritance Tax revenue lost due to the exemption increase. The replacement provision guarantees that each county receive an amount of Inheritance Tax revenue equal to the five-year annual average amount of Inheritance Tax received by that county from FY 1991 to FY 1997, excluding the highest year and lowest year from the computation. The total annual guarantee to counties is approximately $7.4 M, with replacement payments averaging about $208,000 since FY 2000. (Note: Replacement payments are made in the fiscal year following the fiscal year in which counties experience revenue shortages.)

A copy of the spreadsheet showing the amount of Inheritance Tax replacement guaranteed to each county under P.L. 254-1997 is available from the Office of Fiscal and Management Analysis.

State Agencies Affected: All.

Local Agencies Affected: All.

Information Sources: Department of Personnel Staffing Database. State Revenue Forecast (December 14, 2006); OFMA Inheritance Tax database.

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